

12/3/77

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THE PRESIDENT'S SCHEDULE

Saturday - December 3, 1977

9:00 Dr. Zbigniew Brzezinski - The Oval Office.

9:30 His Excellency Ahmed Osman, Prime Minister
of Morocco. (Dr. Zbigniew Brzezinski).
The Oval Office.

THE WHITE HOUSE

WASHINGTON

December 3, 1977

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

THE PRESIDENT

FROM:

FRANK MOORE

SUBJECT:

Weekly Legislative Report

1. ENERGY

-- There is a meeting today between Ashley and Long to begin work on the outlines of a tax agreement. The tax conferees will meet on Tuesday. We hope to see movement in the natural gas conference early next week. We should know by the end of the week if a bill will be possible prior to your trip.

-- DOE summaries of action in the utility rate reform and tax conferences are attached at the end of this report.

2. FOREIGN POLICY ISSUES

Middle East Reactions: State reports that your press conference put to rest a good deal of concern on the Hill that the Administration was not being adequately supportive of President Sadat's initiative. The basic skepticism remains, however, just beneath the surface. Friends of Israel are gaining more enthusiasm over the prospects for a separate peace with Egypt. They are concerned that the Administration's concentration on Geneva and a comprehensive settlement will place roadblocks in the way of a separate peace.

-- State reports that most pro-Israel Members understand that the chances for a separate peace would be diminished considerably were the U.S. to push openly to achieve that goal, but nevertheless want us to indicate to Sadat our support for a bilateral settlement.

-- Meetings last Thursday and Friday between Secretary Vance and the House leadership and Jewish Members have helped to develop better understandings of our diplomacy. We will have to touch base in advance, however, on any major new initiatives. Failure to do so may evoke a strong response from the Hill.

-- An AID congressional liaison officer advanced the 15 Member visit to Egypt, Israel and Portugal headed by Wright. He advises that the Majority Leader envisioned himself in a quasi-diplomatic role and did a superb job in each country. Both Democratic and Republican Members of the delegation repeatedly praised Wright from his ability to express himself so eloquently as the leader of the group.

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for Preservation Purposes**

Panama: State and White House congressional liaison staff will begin Monday contacting Senators to determine their present position on the Treaties and to encourage support. You will receive daily reports. Your meeting Thursday with legislative assistants has received rave reviews from the Hill, although some dismay was expressed when you indicated you would not appear on television until next year. The meeting, coupled with Senator Byrd's new interest in the Treaties, appears to have swung the momentum to our side for the first time in many weeks.

Foreign Assistance: The Legislative Interagency Group, composed of appropriate Assistant Secretaries for Policy and Congressional Liaison from the agencies and NSC staff, is beginning activity under my direction (working closely with Henry Owen). Based upon NSC position papers to you, we will begin congressional consultations in mid-December on FY 1979 funding levels, a long-term funding strategy, and to some degree, on organization of foreign aid (the Senate Foreign Relations Committee is planning an extensive revision of foreign aid legislation).

-- These efforts will be done at the same time that Treasury is consulting on: 1) the basic concerns that should be included in the study of IFI's, 2) the World Bank General Capital Increase, and 3) the replenishment levels of the Asian Bank and the African Bank.

-- Meanwhile, Congressman Clarence Long has asked agreement from his Appropriations Subcommittee members to use the Committee's investigative staff to begin looking into the operation of the IFI's. Treasury is taking the general position that we should be cooperative but observes the legal limitations of confidentiality imposed by the banks.

SALT: Paul Warnke testified before the Senate Foreign Relations Committee Tuesday. State reports that two major concerns emerged:

1. Unilateral Statements. The kind used in SALT I were criticized. Warnke pointed out that in the case of SALT I there were unilateral statements by the U.S. as to what the Soviets would do. He distinguished these from the unilateral statements contemplated on BACKFIRE, whereby the Soviets would bind themselves to a course of action.
2. Verification. Glenn has insisted that he will only support a SALT II agreement which is subject to adequate verification. In the absence of detailed briefings on verification, Glenn and others are beginning to use verification issues in overly simple terms and may demand a standard for SALT II which cannot be met. The Administration is required to prepare a comprehensive report on verification under the Derwinski Agreement. Adequate briefing must be done in advance so this report will be well received.

-- The Jackson Subcommittee will remain active in the coming weeks, although they will be examining the nuts and bolts of SALT and will have little visibility. They are planning hearings on the CRUISE missile and MINUTEMAN survivability and will hear Air Force witnesses, including Air Force Chief of Staff David Jones.

-- State reports that the Hill will be intensely interested in the Defense Department announcement that it has begun a major review of our overall strategic posture. The results of this study could have a major impact on the Senate and it is unlikely that Senate action on a SALT II treaty would come before this report is submitted and fully debated.

Witteveen Facility: Treasury reports that the effort to report out the authorization bill was thwarted by freshman John Cavanaugh (D-Neb.), a member of the Neal Subcommittee on International Trade. In a move which caught Chairman Reuss and other members of the Committee by surprise, Cavanaugh presented ten amendments which he intended to offer to prevent speedy consideration of the bill. Cavanaugh read a 12-page letter to the Committee which made the following points:

1. The Witteveen Facility bill is the "single most important" measure the Banking Committee will consider in 1977 or 1978;
2. Additional hearings before the full Committee are needed -- including testimony from the Secretary of the Treasury, the Chairman of the Fed, the Comptroller of the Currency, and the FDIC Chairman -- before final action is taken;
3. There is little justification for the Facility since it "is intended to provide the foundation for the continuation of the existing very dangerous debt situation, and, ... provide stimulus for the continued expansion of world debt on the same or similar terms which have existed over the past four years";
4. Life mirrors fiction ... quoting a paragraph from The Crash of 79 which discussed the vulnerability of the international monetary system because of alleged reckless lending practices. (Senator Church cited this novel during Secretary Blumenthal's executive session briefing prior to the Downing Street Summit.)

-- Cavanaugh told Treasury staff privately after the markup that the purpose of his amendments -- some of which are admittedly not very serious -- was to slow down the proceedings until he could get some of his questions answered. He agreed to meet with Under Secretary Solomon for this purpose.

-- Before recessing until January 19, the Committee adopted two amendments: 1) a Hyde amendment limiting the salaries of the U.S. Executive Director and his alternate, and 2) a Derrick amendment making the Facility subject to the appropriations process. The Committee did not adopt a human rights amendment, but postponed consideration until a satisfactory draft was worked out.

PL 480 and Human Rights: State has had extensive contacts with the House and Senate Agriculture Committees (both Talmadge and Foley have been briefed) explaining Administration intentions on implementing the new human rights provisions of the PL-480 legislation and the reasons for past delays. The present status is that 12 agreements out of 29 for FY 1978 have now been sent to the field for negotiation; the remainder are still at Agriculture being processed. State advises that by the end of the week, any possible problems with recipient countries' acceptance of the human rights stipulations should become apparent.

Arab Boycott: We have temporarily defeated the subpoena at the subcommittee level with the help of Chairman Brooks. We are confident that we can stop it permanently if it begins to move again.

3. SUPPLEMENTAL APPROPRIATIONS

-- Last week House action on the measure resulted in its recommitment to conference with instructions to include \$18 million for AMTRAK operating subsidies. The House is scheduled to consider the revised conference report on Tuesday and Senate action should follow shortly thereafter. Two House floor votes on items reported in disagreement are expected: the rescission of \$463.4 million in 1977 funds for the B-1 bomber and the inclusion of \$200 million for CSA emergency fuel subsidies. OMB, DOD, and SBA continue to work to insure a favorable outcome on the B-1 bomber vote.

4. REGULAR APPROPRIATIONS

-- Congressional efforts to resolve the deadlock on the Labor/HEW bill have continued to be unsuccessful. OMB advises that Senator Brooke has threatened a filibuster to prevent passage of any continuing resolution for Labor/HEW programs if the abortion issue is not addressed in it. Further House floor action is expected on Tuesday. Committee staff has informed OMB that an attempt will be made to include funding for all Labor/HEW programs (at the budget rate recommended by the conferees) and some new abortion language in an updated continuing resolution. The effect of the move, if successful, would be to approve the content of essentially the entire Labor/HEW bill under a different name.

-- The House Appropriations Committee has reported a continuing resolution for D.C. which does not expire until September 30, 1978.

5. SOCIAL SECURITY FINANCING

-- Conferees met last Thursday but did not complete a preliminary review of provisions in both bills and made only tentative decisions on minor issues. Senate and House members agreed to caucus separately on Friday in an attempt to reach agreement among themselves on major issues. The House conferees are strongly opposed to the inclusion of the Moynihan welfare amendment. The conference, scheduled to resume on Monday, will take longer than anticipated, but HEW expects final action this session.

-- Last week's defeat of the motion to instruct House conferees (183 to 209) can be directly attributed to the intervention of the AFL-CIO and the Speaker's Democratic Steering Committee staff.

6. ERDA AUTHORIZATION

-- House action on S. 1340 has been rescheduled for next week. The rule for this legislation will permit the deletion of the text of S. 1340 and the substitution of the approximate text of S. 1811 (the bill you vetoed). Reportedly, the substitute text will not include 1) any funding or language pertaining to the Clinch River Breeder Reactor, and 2) authority to increase uranium enrichment prices (Title V).

-- According to OMB, the Administration would not oppose the measure if: 1) the appropriation authorization and other language pertaining to the CRBR is indeed deleted; 2) the authority for "Uranium Enrichment Services" (Title V of S. 1811)

is included minus the one-House veto provision; 3) the one-House veto provisions pertaining to (a) disposition of spent nuclear fuel from foreign sources and (b) geothermal facility loan guarantees are deleted; 4) the deadline for a report on the Barnwell, South Carolina reprocessing facility is extended from six to eighteen months; 5) the language which impedes the ability of the Secretary of Energy to effectively organize the Department's R&D activities is deleted.

-- We have given the Speaker a prioritized list of objections and have asked him to intercede with Chairman Teague who will make the final decisions on the substitute.

7. BLACK LUNG

-- The conferees agreed last week that the benefits fund would be financed through a tonnage tax of 50¢ on each ton of underground coal and 25¢ on each ton of surface mined coal. It was further agreed that the tax would be part of a separate bill which Senator Long would introduce as an amendment to a minor revenue measure.

-- The Labor Department advises that the significance of the compromise lies in the fact that Senator Long has won both his arguments: 1) with respect to making the trust fund part of the IRS Code and, 2) assuring that the oil companies, which own most of the surface mined coal, will pay a lower tax.

8. MISCELLANEOUS

-- Last Wednesday, Rep. Sonny Montgomery, Chairman of the Compensation, Pension, and Insurance Subcommittee of Veterans' Affairs, introduced a veterans' pension reform bill that could cost between \$800 million and \$1 BILLION. The bill is cosponsored by full Committee Chairman Ray Roberts and ranking minority member Hammerschmidt. Committee staff have indicated that it is likely to be the Committee's major bill for the next session.

-- Tony Solomon will brief Steel Caucus Members on Tuesday morning, prior to the official release.

-- Rep. Don Fraser, Chairman of the HIRC International Organizations Subcommittee, has organized a meeting next Tuesday at AID with participants from the private sector, AID and State Department to discuss the implementation of his amendment to the FY 1978 authorization bill. The amendment provides \$750,000 for studies to identify and carry out human rights programs and activities in countries eligible for bilateral assistance.

-- The fact that Corman and Hawkins are talking to each other on the jobs component of the welfare plan is a significant accomplishment of your meeting last week.

-- Members with large rural constituencies have received considerable mail on the recently proposed health planning guidelines, and they have been complaining loudly to HEW. HEW advises that the complaints, fed by misleading hospital association

rhetoric, are the result of a misapprehension that the guidelines will cause the closing of large numbers of small rural hospitals.

-- Next week DOD plans to furnish the Armed Services and Veterans' Affairs Committees advance copies of the proposed DOD directive, prescribing uniform standards and procedures, for use by the Discharge Review Boards to implement recent legislation concerning the Special Discharge Review Program. Given the required 30-day period for public comment, DOD anticipates implementation of the new rules sometime in late January.

-- HEW and Senators Leahy and Clark (campaigning in Iowa) are anxious to have a signing ceremony for the Rural Health Clinics bill.

-- Senator Hathaway and Rep. Mike Blouin (D-Iowa) are interested in a signing ceremony for the Career Education Act.

-- After the informal three-week recess, Democratic Members are exhibiting a resurgence of nervousness over next year's elections -- similar to reactions after the special elections earlier this year. In '74 and '76 most Democrats felt that momentum was on their side because of Watergate and your Democratic campaign. Now, however, Democrats (particularly the younger Members) fear being accused by Republicans and constituents of being responsible for higher energy prices and social security taxes and are increasingly anxious that momentum will be with their opponents. The Moffett group meeting, prior to your meeting, was an indication of this.

FLOOR ACTIVITIES, WEEK OF DECEMBER 5

House

Monday -- Pro forma session.

Tuesday & balance of week -- Conf. Rpt. on H.R. 9375, Supplemental Appropriations
-- Call of Private and Unanimous Consent Calendars
-- Consideration of Labor/HEW and D.C. Appropriations measures
-- Conf. Rpt. on H.R. 9418, Public Health Services Act Amendments: Capitation Grants for Third-Year Medical Students
-- Conf. Rpt. on H.R. 6666, Legal Services Corporation Act Amendments
-- S. 1340, Energy Research and Development Authorization

Senate

-- The Senate will convene on Tuesday and will take up the Supplemental Appropriations measure when it is received from the House, as well as the Continuing Appropriations Resolution containing abortion language. The Senate will also act on other conference reports if available.

-- If action is completed on these matters, the Senate will probably continue in pro forma sessions, waiting on the completion of all energy conference reports.

HOUSE/SENATE CONFERENCE ON UTILITY RATE REFORM (HR 4018)

Conferees completed Utility Rate Reform Thursday evening following three days of steady work upon return from the Thanksgiving Recess. Satisfactory conclusion can be attributed to Chairman Staggers, who moved the bill expeditiously, and to the Conference Principals, Dingell, Jackson and Johnston, who provided the direct input for compromise. That the principals were in final agreement on controversial issues and other Conferees appeared satisfied would indicate final passage by both Houses.

Over 60 items were treated, with four of major importance - Interconnections, Wheeling and Pooling under the Wholesale Power Section; and the mechanism for Presidential decision on the Northern Tier route for Alaskan oil. The Senate appeared to make more concessions than the House on these provisions. For example, the Senate bill contained no provision for either wheeling or pooling and Senate Conferees thus came far in agreeing to a modification of the House language.

Pooling: The House bill gave the FERC discretionary power to initiate evidentiary proceedings to determine if pooling for specific cases was feasible; if so, it would be mandatory to issue an Order. Also, FERC would be required to carry out such proceeding and arrive at a decision upon request. However, the compromise role of FERC is more ombudsmanship in that it must coordinate with Electric Reliability Councils in undertaking reviews and it can only make recommendations to utilities for voluntary pooling agreements.

Wheeling: The House bill similarly gave FERC greater authority than the compromise. FERC was authorized either on its own motion (discretionary) or upon request to order Wheeling, following requisite tests of feasibility, equity and public interest. The compromise only allows FERC intervention for purposes of ordering Wheeling upon request - not on its own motion, and the tests and constraints are more restrictive than the House bill.

Interconnections: The compromise retained both the discretionary entry of FERC on its own motion as well as upon request to review and make decisions on Interconnections, whereas the Senate bill had only made provision upon request. The main obstacle to final resolution was whether the ultimate decision of FERC should be discretionary (Senate position) or mandatory (House position). Congressman Dingell resolved the impasse with language that if FERC acts on its own motion whether or not it issues an order or denial would be discretionary; but if it enters into the proceeding upon request, it must issue the order or state its reason for denial, thereby making the decision subject to judicial review.

Northern Tier: As one of the most important issues to resolve, the ultimate compromise represented give and take on the part of both sides. Following is an outline of the final compromise:

- Set December 1, 1978 as completion date for EIS's. (Senate)
- Late applications can be received 60 days after date of enactment, and extend the EIS deadline for said late applications 60 days after the December 1, 1978 deadline. (House)
- Permit Process - President will direct Heads of Agencies responsible for respective permit procedures to act "as soon as practicable" in completing processing after approval of the route, and consistent with applicable law. (House)
- Waiver language to facilitate the completion of the route would apply only to Federal laws, not State law. (House)
- Presidential Decision - the President has up to 60 days to defer his decision following completion of the EIS's. (Senate)
- Midland Permit - 30-day deadline for a decision on the Midland permits necessary to construct a pipeline, but the President is given authority to extend this time limitation to 90 days, providing for a maximum of 120 days for decisions. The permit decisions must be consistent with applicable law. (House)

All conferees were in agreement with the necessity of ensuring Congressional "neutrality" with respect to the final Presidential decision on the Northern Tier route. A principal concern was that any delay in EISs and permit licensing procedures would further delay the pipeline route thus exacerbating the looming problem of surplus Alaskan oil on the West Coast.

The Senate initially pushed for very limited time-frames but the House expressed concern that if EIS timing was cut too short, it would only result in further delay through litigation by public interest environmental groups. The Senate further wanted to impose specific deadlines for the permit process to expedite finalization of a pipeline. In the ultimate compromise, the Senate agreed to recede from time-specific permit deadlines and accept the House language "as soon as practicable" but retain December 1, 1978 as the ultimate cutoff for the EIS submissions.

Another urgent concern expressed by both House and Senate conferees was with the State-imposed delays in the Midland project by the California Air Resources Board. A general consensus developed that it may be necessary to have two routes--the Northern Tier as well as the Southern route from Long Beach, California to Midland, Texas to handle the 600,000 b/d oil surplus of Alaskan oil expected next year.

Other Relevant Issues:

#1 - Lifeline. The Senate which made Lifeline rates to the elderly poor mandatory receded to the House which made it discretionary for State PUCs, but with the option to reconsider if the tax conference drops the \$75 tax credit for the elderly poor.

#2 - Consumer Representation before FERC. Established an Office of Public Participation within FERC charged with coordinating Commission staff assistance to the public and with administering intervenor funding provisions. (The House bill had a provision establishing an Office of Public Counsel; the Senate had no such provision.)

#3 - Aid to State Utility Commissions. In lieu of the House provision for \$40 million for staffing assistance, the compromise authorizes the Department of Energy to make grants to State PUCs to assist them in carrying out the functions assigned by the bill. \$40 million will be authorized annually for FY 79 and 80. Each state will receive equal amounts upon application. Money must supplement, not supplant existing monies of the State.

#4 - Just Compensation for Heavy Fuel Oil Users. Agreed to Senate proposal to facilitate the voluntary conversion of natural gas users to heavy fuel oils. The intent is to free up natural gas for other users while consuming surplus domestic heavy fuel oils. The provision directs the FERC to establish the rules, which would apply only to intrastate users, to enable such user to transfer his actual interest of gas into the interstate markets, receiving fair compensation for the relinquishment.

#5 - Conserved Natural Gas ("Savers-Keepers"). Agreed that if FERC updates the base period for a curtailment plan, it must adjust the distribution system's entitlement under the curtailment plan to reflect any volumes of natural gas saved through implementation of energy conservation measures.

(Curtailment plans presently in effect provide for basing a distributing system's entitlement to gas on its base period use. If the distribution company conserves gas,

it keeps the gas and is free to use it for any purpose consistent with State law. If an entity does save gas through conservation measures, a problem of reduced allocations under curtailment could arise if the FERC decided to update the fixed base period, and in so doing, bases the new entitlement on actual use in the new base period in which conservation measures of the entity had reduced consumption.)

#6 - Energy Conversions of Utility and Other Facilities.

Related to Emergency Boiler Fuel Conversions, adopted the Senate provision that grants the Secretary of DOE power during a natural gas emergency to prohibit any electric utility powerplant or major fuel burning installation (MFBI) from burning natural gas, but applying restrictive criteria including that the plant could switch from gas without damage or interference to its production process.

SYNOPSIS OF ISSUES UNDER DISCUSSION
BY THE HOUSE/SENATE CONFERENCE
ON THE ENERGY TAX BILL, H.R. 5263

House and Senate Conferees met several times during the past week to discuss, but not to decide, the major issues facing them in the energy tax conference.

Conference Chairman Al Ullman has repeatedly expressed a strong desire to move the tax conference more rapidly and to begin actually resolving the serious issues, and tax conferee Thomas "Lud" Ashley, Chairman of the House Ad Hoc Energy Committee, has joined in Mr. Ullman's determined stance. However, Senator Russell Long has made it clear that he is not ready to resolve the energy tax issues, and that he will not do so as long as the non-tax energy conferees still have work to do; specifically, Senator Long stated that he is waiting for the successful conclusion of the conference on natural gas pricing. The Louisiana Senator expressed his belief that all of the tax conferees should be present for the major decision-making and noted that such attendance is impossible as long as the other energy conference is going on.

While the Chairman of the Senate Finance Committee insists that any final conference agreement on energy taxes must include what he terms "adequate" production incentives for the oil and gas industry, Rep. Toby Moffett, also an energy tax conferee, has vigorously warned that it would not take very much in the way of production incentives to make the bill unacceptable to the House. Rep. Moffett further expressed concern this past week that the Administration's position may be unclear regarding the acceptability of an energy development trust fund; he indicated that he would not favor the adoption of such a plan. Mr. Moffett made clear his strong belief that rebates to consumers should be the primary disposition of any energy tax funds.

Congressman Ullman stated this week that in all likelihood the energy tax conferees will have to resolve their major differences next week or it will not be possible to complete a bill before Christmas. Congressman Ashley stated that he thinks there is a "50-50" chance of completing the bill this year. Senator Long stated that he feels the completion of an acceptable bill is still possible this year, but that he could not predict it with any certainty.

THE WHITE HOUSE
WASHINGTON

December 3, 1977

The Attorney General

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

NICKI BARNES

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

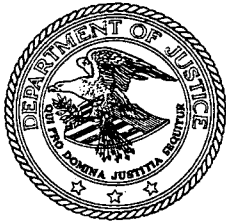
cc AG

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN



THE PRESIDENT HAS SEEN

Office of the Attorney General

Washington, D. C. 20530

December 2, 1977

Good! cc Griffin -
Let me know
when (if) he
actually goes to
prison to stay
J. C.

MEMORANDUM TO THE PRESIDENT:

I have just learned that Nicki Barnes (Leroy Barnes) was just convicted of conspiracy to sell and distribute heroin and was convicted of managing a continuing criminal enterprise after a 10 week jury trial in the Southern District of New York. This conviction represents perhaps the most important conspiracy narcotic undertaking by the Drug Enforcement Administration and the United States Attorney's office in the Southern District of New York in the last several years. United States Attorney, Robert Fiske personally tried the case.

A total of 14 was convicted. This heroin ring is reported by DEA to have been the principal outlet in the black community in the Nation's big city.

Respectfully,

Griffin B. Bell

Griffin B. Bell
Attorney General

(By TA
By Permission)

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for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

December 3, 1977

Bob Lipshutz

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

FLAHERTY RESIGNATION

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION
FYI

	MONDALE
	COSTANZA
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	ENROLLED BILL
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	CAB DECISION
	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

	ARAGON
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	VOORDE
	WARREN

THE WHITE HOUSE
WASHINGTON

- (1) President Carter
F.Y.I.
- (2) Bob Lipshutz
for drafting of
appropriate
language/response

↑
ok
J

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for Preservation Purposes**

THE PRESIDENT HAS BEEN.



THE DEPUTY ATTORNEY GENERAL
WASHINGTON, D.C. 20530

December 2, 1977

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

With grateful appreciation to you for the honor of serving in your Administration, I hereby submit this letter as my resignation, effective December 9, 1977, from the position of Deputy Attorney General.

As Deputy Attorney General, I have been involved mainly in reorganization and administrative changes at Justice, including LEAA, Freedom of Information, minimum prison standards, the Marshals' Witness Security Program and the elimination of a large number of regional offices in the LEAA, Marshals Service and the Drug Enforcement Administration. Most of these changes are completed or nearing completion.

In my home state of Pennsylvania, there has been much speculation as to my entering the 1978 gubernatorial race. The response has been most encouraging, and a recent poll indicated that I would be the leading Democratic contender. Much exploratory work remains to be done, however, before I make a final decision to enter the race. Obviously, I should not seriously explore the matter from my position as Deputy Attorney General.

Although there were a number of things which I had hoped to accomplish over the next few years at the Department, I feel it best to continue my public service career in my home state of Pennsylvania.

Thank you for permitting me to participate in your Administration.

Sincerely,

A handwritten signature in cursive script, reading "Peter F. Flaherty".

Peter F. Flaherty

THE WHITE HOUSE
WASHINGTON
December 3, 1977

Hamilton Jordan
Bob Lipshutz

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the President's outbox. It is
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Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

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	IMMEDIATE TURNAROUND

ACTION
FYI

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	COSTANZA
	EIZENSTAT
/	JORDAN <i>(has already)</i>
/	LIPSHUTZ
	MOORE
	POWELL
	WATSON
	LANCE
	SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
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	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

THE WHITE HOUSE
WASHINGTON

Mr. President:

On that morning, your schedule is as follows:

8:15 -- Brzezinski

8:45 -- Moore

8:55 -- photo session with Bob Bergland and Senator Huddleston

9:30 -- Califano meeting, for 40 minutes on elementary and secondary re-authorization decisions

you are free for lunch, altho you have McIntyre from 1:30 till 5:00.

TK TK

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

December 2, 1977

*Ham -
Sorry - Jim
averse to
new ideas and
perspectives -
J.C.*

MEMORANDUM FOR THE PRESIDENT

FROM:

Bob Lipshutz
Hamilton Jordan

W.J.

On next Tuesday morning, December 6, we are meeting for the second time with two outstanding professors whose expertise is in matters relating to the Middle East.

Attached are brief resumes of them.

A few weeks ago, we spent about three or four hours on a Saturday talking with them and also with the former United States Ambassador to Israel, Walworth Barbour, and found the meeting to be extremely meaningful and intellectually stimulating. Stu Eizenstat also met with them. In addition, Chip dropped by the office and sat in on a good bit of the discussion.

We asked for this follow-up meeting, which will be attended by the three of us, as well as Bill Quandt of the National Security Council.

If you have an opportunity to meet with us, at least for part of the time, we believe that you will find it to be time well-spent. We are having breakfast in the staff mess at 8:00 a.m. and probably will be there until 9:00 or 9:30 a.m.

We also have invited the Vice President to attend.

*These are two stimulating people - particularly
Gottlieb on Arab attitudes and economic
conditions. You should only do this if you
want to be exposed to some new ideas and
perspectives.*

W.J.

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for Preservation Purposes

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

Professor Bernard Lewis

London born and now Professor of History in the School of Oriental and African Studies in London, Professor Lewis is currently a Fellow of the British Academy and a Corresponding Fellow of Institut D'Egypte in Cairo. He has been at the University of London since 1938 and visiting Professor at the University of California, Columbia and Princeton. He is presently spending part of his time at the Institute for Advanced Studies, Princeton University. As a pre-eminent authority on the Middle East, Professor Lewis's published works (in such journals as Foreign Affairs and Encounter) cover a wide range including "The Arabs in History," "The Middle East and The West," "The Emergence of Modern Turkey," and "Islam In History." His work has been translated into Arabic and many other languages. He is co-editor of "A Cambridge History of Islam," and "The Encyclopedia of Islam." He is a profoundly influential and respected writer and scholar.

Professor Fred Gottheil

Professor Gottheil is Professor of Economics at the University of Illinois and a member of the Center for Asian Studies. Professor Gottheil is currently working on a book on the 19th Century Palestinian economy and has done field research internationally in Egypt, Syria, Jordan and Israel, as well as South America and Canada. Gottheil has participated in international academic seminars on the subject of the Middle East and has been widely published on this subject in such journals as "The Journal of Conflict Resolution" and "Middle Eastern Studies" (a highly prestigious London based journal), and "Middle East Review" among others.



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Department of Energy
Washington, D.C. 20585

DEC 1 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

JIM SCHLESINGER

SUBJECT:

Possible Resolution of the
National Energy Plan Issues

Progress is finally being made in developing a resolution of issues on the National Energy Plan. Two meetings have been held between Representatives Ashley and Ullman and Senator Long in an attempt to break the deadlock on the tax provisions. Administration staff, plus staff of Senator Jackson and Representative Dingell, have been present at these sessions. The Administration participants have indicated that no commitments can be made and that you would review any possible series of compromises.

It is clear that the tax legislation and the natural gas legislation will be tied together. The natural gas conference should start this Friday and a series of special meetings will be held over the weekend to develop the basics of a compromise.

At this time, discussion is focusing on two major issues:

(1) Production Incentives

Both Senate and House conferees agree that the best approach to increase producer revenues would be administrative action by the Department of Energy. The Joint Committee on Taxation staff have been working on a series of proposals that could be implemented administratively within the existing authorities of the Energy Policy and Conservation Act. These compromise proposals include:

(a) Proposals Contained in NEP:

- ° Providing the 1977 world price for new discoveries of oil over a three-year period;
- ° Providing the world oil price for tertiary recovery.

(b) Joint Tax Committee Staff Proposals:

- ° Use a more liberal definition of new oil, the same as in the House bill for natural gas.
- ° Move more \$5.25 oil to the \$11.28 price through more liberal application of current DOE decline curve rules
- ° Provide more generous decline curve treatment for marginal wells.

(c) In addition to these compromises developed by the Joint Tax Committee staff, we in DOE have identified two further possibilities:

- ° Allow the world price for new discoveries of oil in 1978 rather than in 1980;
- ° Provide an entitlement for shale oil and other unconventional sources of oil.

Additional producer revenues from the compromise discussed, with the exception of the entitlement treatment for unconventional sources of oil, are outlined on the attached table. As the table indicates, the total amount of producer incentives over the next four years will be roughly \$4.2 billion. Of that amount only \$2.3 billion would be in addition to the initiatives you have already announced in the National Energy Plan.

(2) Trust Fund

The second major issue related to COET is whether a trust fund should be created from the use of COET revenues. There seems to be rough agreement on rebating all 1978 funds and creating a energy and transportation trust fund for the years 1979 to 1981. The trust fund would use roughly 30 percent of COET revenues for these years.

I believe the conferees are working toward a reasonable compromise. The House and Senate conferees would like to begin meeting with me, perhaps as soon as this weekend, to see if agreement can be reached on proposals along the lines that I have discussed. We intend to keep the group of House liberals led by Toby Moffett fully informed as these discussions progress.

The House conferees would initiate the discussion this weekend by proposing the items on the chart except for moving new oil to the 1977 world price and more generous treatment under the decline curve. Overall, the conferees' initial proposal would result in about \$2.4 billion being available to producers over the four-year period, roughly \$400 million above the amount promised in the National Energy Plan.

Unless you would prefer otherwise, I will plan to meet with the House and Senate conferees next week to attempt to get an agreement along the lines discussed.

INCREASE IN REVENUES TO PRODUCERS

(Millions of Dollars)

				9 mo.	
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>Total</u>
1977 world price in 3 years	\$153.2	\$390.4	\$627.6	\$584.9	\$1,756.8
New reservoir definition...	28.3	45.6	63.1	80.1	217.0
New oil moves immediately to 1977 world price.....	134.0	103.0	-	-	237.0
Fresh start on decline curve.....	399.2	419.3	444.3	342.0	1,604.5
Tertiary recovery.....	18.6	43.3	74.4	74.3	210.6
Bonus on decline curve for marginal properties..	58.6	57.6	56.8	41.1	214.0
Total.....	\$791.9	\$1,059.2	\$1,265.9	\$1,122.4	\$4,239.9
Total, less proposals already announced in NEP.....	171	434	702	659	1967
	\$620.1	\$ 625.5	\$ 563.9	\$ 463.2	\$2,272.5



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

DEC 2 1977

MEMORANDUM FOR THE PRESIDENT
FROM: JAMES T. MCINTYRE, JR. *Jim McIntyre*
SUBJECT: Budget Implications of Conferee Actions on NEP Legislation

House/Senate conferees have not yet addressed the most significant tax provisions (including business and other tax credits) of the legislation. For the nontax provisions, most actions are now complete except for natural gas pricing. We have prepared estimates of the budget impacts based on conferee decisions to date. These, along with estimates of the budget impacts of the NEP April proposal and the House/Senate bills, are summarized below.

	FY 81			FY 78-85		
	Receipts ^{1/}	Outlays	Net Effect	Receipts ^{1/}	Outlays	Net Effect
	(\$ in billions)					
Administration	\$1.5	\$1.7	-\$0.2	\$26.7	\$19.4	+\$7.3
House ^{2/}	11.7	2.4	+9.3 ^{2/}	31.7	23.5	+8.2 ^{2/}
Senate	-6.6	2.4	-9.0	-46.3	21.5	-67.8
Conference	N/A	2.2	N/A	N/A	23.0	N/A

Final conferee action on nontax provisions is estimated to result in outlays between FY 78-85 about 20 percent higher than the NEP proposal. Attachment A shows the individual program increases over your proposal.

There are huge budget impact differences among the Administration's proposal and the House and Senate bills. This is caused almost entirely by the tax provisions (including business and other tax credits) of the legislation. OMB staff has completed an analysis of potential conference outcomes to identify the most critical provisions affecting the budget. Staff estimates are shown below.

	FY 81			FY 78-85		
	Receipts	Outlays	Net Effect	Receipts	Outlays	Net Effect
	(\$ in billions)					
Administration	\$1.5	\$1.7	-\$0.2	\$26.7	\$19.4	+\$7.3
Favorable ^{3/}	2.2	3.1	-0.9	15.3	28.8	-13.5
Unfavorable ^{3/}	1.5	4.8	-3.3	8.1	38.9	-30.8

^{1/} Receipts are based on House and Senate passed bills.

^{2/} If the wellhead tax is fully rebated, the net effect for FY 81 is -\$2.3 billion and -\$18.4 billion for FY 78-85.

^{3/} Attachment B provides a detailed breakout of the assumptions behind these estimates.

McIntyre Comments

I am very concerned about the potential adverse budget impacts of final outcomes, even under favorable assumptions.

As negotiations on tax provisions proceed, I suggest that we follow these principles to minimize adverse budget impacts:

1. In your proposal, the cumulative outlay impacts of the new or expanded Federal energy programs and the tax credits was offset by the net revenues from the oil and gas tax on industry (\$34.4 billion in revenues from FY 78-85). In conference, the likely outcome is \$4.3 billion in net revenues for the period FY 78-85 from the oil and gas use tax. The only other significant revenue will come from the wellhead tax, which is therefore critical to both energy and budget objectives. A sizable portion of this revenue stream would be needed to offset the energy-related outlays and tax credits. This should preclude: 1) a full rebate of the tax as proposed in the NEP, and 2) spending all funds not rebated on new energy development programs, as proposed by Chairman Long. If a trust fund becomes part of a compromise, it must be flexible enough to permit a substantial amount of the receipts to be used for funding base energy Federal programs and new energy tax credits.
2. If the opportunity for compromise becomes possible by providing limited price incentives for new oil and gas as a substitute for larger tax credits or more Federal spending, then, from a budget perspective, this would be desirable, assuming consumer price impacts would not be severely effected. These trade-offs will require careful evaluation in view of the political implications.
3. Residential and business tax credits in the Senate bill exceed those in the House bill by \$19.2 billion for the period FY 78-85 and are very expensive measures to achieve limited additional energy savings over the level achieved by the House bill. These excesses are as important to the overall budget picture as the tax programs and must be reduced to levels approximating the House bill.
4. Tax credits in the Senate bill for the elderly and for home heating oil amount to \$17.6 billion for FY 78-85. These should be substituted for the rebates from wellhead tax revenues for the same groups and the same purposes (NEP proposal); they should be easier to administer, accomplish the same purposes, and would be no more expensive.

Even if the preceding points were embodied in a conference bill (see Attachment B - favorable assumptions), the energy legislation would still have an adverse effect of about -\$13.5 billion between FY 78-85 with about -\$0.9 billion occurring in FY 81. Anything above this level will cause major problems in FY 81 and significantly diminish chances of a balanced budget.

If you would like to discuss this in more detail, please advise.

Attachments

cc: Secretary Schlesinger
Charles Schultze

Secretary Blumenthal
Stuart Eizenstat

Conferee Actions - Nontax Provisions

OUTLAYS

(\$ in millions)

Conferee Actions (As of 11/30/77)

Provision Title	Fiscal Years					
	78	79	80	81	78-81	78-85
Administration's April Proposal	<u>703</u>	<u>1,026</u>	<u>1,631</u>	<u>1,690</u>	<u>5,050</u>	<u>19,419</u>
A. Weatherization <u>1/</u>		200	300	300	800	2,400
B. Schools/Hospitals <u>2/</u>				113	113	225
C. Grants to Local Governments	13	42	10		65	65
D. Public Housing Modernization	5	10	10		25	25
E. Loan Subsidies--Conservation (\$3 billion)	54	76	76	76	282	358
F. Solar Photovoltaics	14	28	28	28	98	98
G. Energy Development Impact Assistance	30	90	60		180	180
H. State Conservation Grants		60			60	60
I. Loans Coal Conversion (\$400 million)	200	180	-40	-40	300	140 <u>3/</u>
J. Railroad Rehabilitation		10	30	30	70	100
Total Conference Increase	<u>316</u>	<u>696</u>	<u>474</u>	<u>507</u>	<u>1,993</u>	<u>3,651</u>
GRAND TOTAL	<u>1,019</u>	<u>1,722</u>	<u>2,105</u>	<u>2,197</u>	<u>7,043</u>	<u>23,070</u> <u>4/</u>

1/ Authorization is \$130 million for FY 78, \$200 million for FY 79 and \$200 million for FY 80. The additions, over and above authorization levels, are based on expanded coverage contained in the bill.

2/ Authorization is \$300 million each year for FY 78, FY 79 and FY 80. The additional \$225 million is an estimate of the cost of the program with a 50% grant rate as adopted by the Conference in lieu of the 40% rate proposed by the Administration.

3/ Should be returned in form of loan repayments between FY 85 and FY 89 if defaults don't occur.

4/ Conferee actions on the wellhead tax and natural gas pricing will result in changes to outlays. Final outlays cannot be estimated until decisions are made in these areas.

Assumptions - Favorable/Unfavorable Budget Outcomes
Conferee Action on National Energy Plan Legislation
(\$ in Billions)

REVENUE/OUTLAY EFFECTS (FY 78-85)

POTENTIAL OUTCOMES

MAJOR PROVISIONS	Adminis- tration	House	Senate	Favorable	Unfavorable
A. REVENUE IMPACTS					
1. <u>Residential Tax Credits</u>	-\$4.5	-\$4.8	-\$10.1	-\$5.2 Excludes Senate provisions for: 1) making the credit tax refundable and 2) <u>most additional</u> conservation measures, e.g., fluorescent lighting systems, evaporative cooling devices, equipment using hydrogen fuel, peat or wood and furnace or boiler replacements.	-\$7.1 Excludes Senate provisions for: 1) tax refundability and 2) a <u>few of the additional</u> conservation measures, e.g., fluorescent lighting, evaporative cooling and a <u>portion</u> (one-half) of equipment using hydrogen fuel, peat or wood and furnace or boiler replacements.
2. <u>Business Tax Credits</u>	-3.1	-2.5	-16.5	-4.6 Excludes Senate provisions for 15% additional tax credit for alternative energy property credits for industry, utilities, synthetic fuels; limits Senate provision for specially defined property to heat exchanger but includes more liberal conservation, cogeneration recycling provisions of the Senate bill.	-10.8 Excludes Senate provisions for 15% additional tax credit for alternative energy property for industry <u>but includes it</u> for utilities; includes heat exchangers and heat pumps under specially defined property and includes more liberal Senate cogeneration, recycling thermal efficiency and oil shale provisions.
3. <u>Wellhead Tax Revenues</u>	73.1	33.1 ^{1/}	-0-	73.1 ^{2/} Assumes House provision is adopted.	73.1 ^{2/} Assumes House provision is adopted.
° Disposition of revenues	73.1	-6.5	-17.0 °Senate bill doesn't include a tax but does include tax credits for home heating oil and the elderly. °Senate bill calls for the creation of a trust fund for energy development and transportation.	-58.7 °Rebate to home heating oil users (5.6) °Rebate all FY 78 receipts per House bill. (3.5) °Thereafter, rebate 75% of remaining receipts (FY 78-85) to low to moderate income levels. (43.3) °Receipts foregone to provide incentives to increase production, e.g., tertiary recovery. (6.4) °See Trust Fund under Outlays for use of remaining receipts.	-44.3 °Rebate to home heating oil users. (5.6) °Rebate all FY 78 receipts per House bill. (3.5) °Thereafter, rebate 50% of FY 79-85 receipts to low and low moderate income levels. (28.8) °Receipts foregone to provide incentives to increase production, e.g., tertiary recovery. (6.4) °See Trust Fund under Outlays for use of remaining receipts.

1/ The House bill wellhead tax extends only to 12/31/81.

2/ Assumes the House bill wellhead tax is adopted but tax revenue estimates were extended to FY 85 to permit budget comparisons for the FY 78-85 period

Assumptions - Favorable/Unfavorable Budget Outcomes
Conferee Action on National Energy Plan Legislation
(\$ in Billions)

REVENUE/OUTLAY EFFECTS (FY 78-85)				POTENTIAL OUTCOMES	
MAJOR PROVISIONS	Adminis- tration	House	Senate	Favorable	Unfavorable
4. <u>Incentives for Fuels Production</u>	-\$0.5	-\$0.6	-\$2.8	-1.8 Includes Senate provisions for non-conventional oil and gas, e.g., \$3/bbl for oil shale, etc. Delete other subsidies. Assumes credit is necessary to help gain Senate agreement on wellhead tax.	-\$2.8 Includes all Senate bill subsidies for increased production. Assumes oil shale credit is necessary to help gain Senate agreement on wellhead tax.
5. <u>Oil and Natural Gas Pricing</u>	-----	No effect on the Federal budget		----- Assumes a higher than proposed price for new oil and natural gas is used to offset Senate bill business tax credits.	--- Assumes a higher than proposed price for new oil and natural gas is used to offset Senate bill business tax credits.
6. <u>Oil & Gas Use Tax on Industry & Utilities</u>	34.4	4.7	0.2	4.3 House bill provisions for industrial; drop tax on utility use.	0.2 Senate bill.
7. <u>Auto Gas Guzzler Tax</u>					
° Revenue	7.7	0.9		0.9 House bill adopted, proceeds go to Treasury General Fund.	Senate bill; no tax but higher penalties for noncompliance with standards and minimum fuel economy standards for all autos.
° Disposition of revenues	-7.7 Rebates				
8. <u>State Auto Gasoline Tax Deduction</u>	Not in NEP--being considered with Tax Reform	7.5		7.5 House bill - If counted with NEP, must be excluded under Tax Reform.	Senate bill.
9. <u>Misc. - Other</u>	.4	-0.2	-0.2	-0.2 House bill	-0.2 Senate bill.
TOTAL NET REVENUES	\$26.7	\$31.7	-\$46.3	\$15.3	\$8.1

Assumptions - Favorable/Unfavorable Budget OutcomesConferee Action on National Energy Plan Legislation

(\$ in Billions)

REVENUE/OUTLAY EFFECTS (FY 78-85)POTENTIAL OUTCOMES

<u>MAJOR PROVISIONS</u>	<u>Adminis- tration</u>	<u>House</u>	<u>Senate</u>	<u>Favorable</u>	<u>Unfavorable</u>
B. OUTLAY IMPACTS					
1. <u>Total Outlays - All NEP programs over basic budget projections for existing programs.</u>	\$19.4	\$23.5	\$21.5	\$23.1 Estimate based on conferee actions on nontax provisions.	\$23.1 Estimate based on conferee actions on nontax provisions.
2. <u>Trust Fund</u>	--	--	Provisions included authorizing trust fund.	See Wellhead Tax under Revenue Impacts. Assumes 25% of wellhead tax receipts (\$14.4 billion for FY 78-85) are for a Trust Fund. 1) 75% of the \$14.4 billion is used to offset spending on existing and NEP energy programs and tax credits.	See Wellhead Tax under Revenue Impacts. Assumes 50% of wellhead revenues (\$28.8 billion for FY 78-85) are for a Trust Fund. 1) 50% of the \$28.8 billion is used for existing and NEP energy programs and tax credits.
				2.9 2) 25% is used for new programs for energy development. This increases outlays.	+13.0 2) 50% is used for new programs for energy development. This increases outlays.
				2.8 3) Assumes \$400 million per year is used for transportation purposes per the Senate bill. This increases outlays.	+ 2.8 3) Assumes \$400 million per year is used for transportation purposes per the Senate bill. This increases outlays.
TOTAL OUTLAYS	<u>\$19.4</u>	<u>\$23.5</u>	<u>\$21.5</u>	<u>\$28.8</u>	<u>\$38.9</u>
TOTAL BUDGET EFFECTS	<u>+\$7.3</u>	<u>+\$8.2</u>	<u>-\$67.8</u>	<u>-\$13.5</u>	<u>-\$30.8</u>

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

C /

December 2, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze ^{CLS}

SUBJECT: Budgetary Implications of the Energy Program

1. The numbers

I basically agree with Jim McIntyre that we must be extremely attentive to the budgetary consequences of potential compromises on energy. At the same time, some points deserve emphasizing:

- o The tax provisions take effect in the near future, while many of the potential budgetary outlays are further off. The major danger from an economic view is that we will add to the steeply rising tax burden in the short run to cure budgetary problems arising in the 1980s.
- o Most of the tax breaks added in the Senate will accrue to businesses and energy companies. It will not appear to be fair if consumers are penalized by sharply reducing the personal rebates, while firms are benefitting.
- o The estimation of budgetary effects to the mid-1980s is treacherous and the outlook may be less pessimistic than in OMB's estimates. For example, the OMB memo states that there is no effect on the Federal budget of higher natural gas prices, whereas higher gas prices lead to higher corporate profits taxes. Also, the assumptions about the "potential outcomes" seem pessimistic. In both the favorable and the unfavorable cases, OMB assumes a substantial wellhead tax rebate, ranging from \$44 billion to \$59 billion. Yet the Senate bill has a \$17 billion contingent rebate and the House bill has a \$6 billion, one-year rebate. Thus the most favorable case assumes \$40 billion less revenue than the most extreme case in either house. This adjustment alone offsets the entire unfavorable budget effects.

2. Energy strategies

On OMB's concrete proposals, I have the following reactions:

- A. The Senate bill has some extraordinarily bad provisions. While the dollars are important, I think it may be counterproductive to tailor an energy policy mainly on its budgetary effects.
 - o Individual programs in the Senate bill -- for example, increased depletion allowance for peat -- should be resisted mainly because they are wasteful.
 - o The overall economic effects -- on taxes, the deficit, unemployment, etc. -- can and should be primarily adjusted for by scaling up or down the size of the tax program we will propose.
- B. We should try to hold as much as possible of the wellhead tax for return to consumers in the form of tax cuts:
 - o The House bill explicitly provides a consumer rebate for 1978, but nothing thereafter.
 - o The House rebate for 1978 is probably not a model for rebates in subsequent years -- for example, it gives special rebates to social security recipients (who already would be reimbursed for higher oil prices by cost-of-living escalators).
 - o Best way to return the wellhead tax receipts to consumers would be through enlarging the tax credits provided in the tax reform bill.
 - o Therefore, at the appropriate time, we should publicly commit ourselves to return the net revenues from the wellhead tax by enlarging our tax reduction proposal.
- C. Jim McIntyre suggests that from a budgetary standpoint limited additional price incentives for new oil and gas are a better buy, in a compromise, than larger tax credits or Federal spending. He is right from an economic standpoint as well.
 - o A decline rate proposal on old oil, if not too generous, would make good sense, and would be a more productive "use" of wellhead revenues than a potpourri of Russell Long tax credits. It would help the cash flow of companies with large old oil reserves, and

would stimulate additional investment in secondary recovery and drilling of development wells in existing fields.

- o If necessary, a modest increase in the new gas price ceiling would be more desirable -- both to stimulate production and to save consumer and taxpayer dollars -- than either easing up on the rollover provision or giving oil and gas producers extra tax credits.

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THE WHITE HOUSE

WASHINGTON

December 3, 1977

MEMORANDUM FOR THE PRESIDENT

FROM

STU EIZENSTAT
KITTY SCHIRMER

Stu

SUBJECT

McINTYRE MEMO OF 12/2 ON ENERGY
LEGISLATION BUDGET IMPACTS

Eizenstat Comments

In general, Jim McIntyre's memo provides an extremely helpful background against which we can begin to evaluate possible compromise options and measure their budget impacts. Jim Schlesinger has, or will shortly be, sending you a memorandum on oil incentive measures which have been floated by Senator Long and the House Conferees. Reading these two memos together makes it clear that any compromise we may reach on various new incentives for producers must result in deletion of a substantial number of the Senate-passed tax credits. Without such an agreement we cannot hope to keep the budget in line.

We agree fully with the first point in the McIntyre memo that flexibility to fund base programs is essential if a trust fund is to be established.

On his second point -- price increases for oil and gas are more desirable than added federal spending -- we agree generally, but believe that proposals outside the price area (such as treatment of intrastate roll-over contracts, stripper well treatment) may be more acceptable politically. These might accomplish the same result in terms of acceptability to Senators Long and Johnston, but without such a highly visible compromise stance.

The third point, that tax credits must be greatly reduced, is clear.

Finally, we agree with McIntyre's suggestion that the tax credit for the elderly be replaced with the general well-head tax

page two

rebates, but have some concern about abandoning the home heating oil rebate. This provision is particularly important to New England and other northern state Senators. Its deletion could cause a significant number of Senators (and Congressmen) to reject COET altogether. We would recommend that you reserve judgment on this suggestion until the need to back away from it becomes clearer and we have had a chance to do some checking with the Congress.

As a final note, we do not believe that the analysis in this memo warrants any change from your basic strategy of letting the House conferees come forward with proposals for your consideration. We should keep stressing the importance of keeping budget impacts to a minimum in our discussions with all of the Conferees, but we do not believe that a change in strategy is necessary.

THE WHITE HOUSE

WASHINGTON

Date: December 2, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat
Charles Schultze
Secretary Schlesinger

FOR INFORMATION:

The Vice President
Hamilton Jordan
Frank Moore (Les Francis)
Jody Powell
Jack Watson

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: McIntyre memo dated 12/2/77 re Budget Implications of
Conferee Actions on NEP Legislation

ADMINISTRATIVELY CONFIDENTIAL

**YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:**

TIME:

IMMEDIATE TURNAROUND

DAY:

DATE:

ACTION REQUESTED:

 X Your comments WILL BE SUBMITTED TO THE PRESIDENT ON
Other: SATURDAY AT 10:30 AM --- NO EXTENSIONS

STAFF RESPONSE:

 I concur.

 No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE
WASHINGTON

*Admin
conf'd*

✓	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
✓	IMMEDIATE TURNAROUND

ACTION
FYI

TO PRES 10:30 AM - SAT
NO EXTENSIONS

✓	MONDALE
	COSTANZA
✓	EIZENSTAT
✓	JORDAN
	LIPSHUTZ
✓	MOORE
✓	POWELL
✓	WATSON
	LANCE
✓	SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
✓	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

THE WHITE HOUSE
WASHINGTON

12/3/77

Mr. President:

Attached is a memo from Jim McIntyre which should be read in conjunction with the memo on producer incentives/energy trust fund which you have from Secretary Schlesinger.

A comment from Charlie Schultze is attached; Stu's comment is expected shortly.

Rick

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

December 2, 1977

Comment on McIntyre memo - sent to Pres 12-3

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze *CLS*

SUBJECT: Budgetary Implications of the Energy Program

1. The numbers

I basically agree with Jim McIntyre that we must be extremely attentive to the budgetary consequences of potential compromises on energy. At the same time, some points deserve emphasizing:

- o The tax provisions take effect in the near future, while many of the potential budgetary outlays are further off. The major danger from an economic view is that we will add to the steeply rising tax burden in the short run to cure budgetary problems arising in the 1980s.
- o Most of the tax breaks added in the Senate will accrue to businesses and energy companies. It will not appear to be fair if consumers are penalized by sharply reducing the personal rebates, while firms are benefitting.
- o The estimation of budgetary effects to the mid-1980s is treacherous and the outlook may be less pessimistic than in OMB's estimates. For example, the OMB memo states that there is no effect on the Federal budget of higher natural gas prices, whereas higher gas prices lead to higher corporate profits taxes. Also, the assumptions about the "potential outcomes" seem pessimistic. In both the favorable and the unfavorable cases, OMB assumes a substantial wellhead tax rebate, ranging from \$44 billion to \$59 billion. Yet the Senate bill has a \$17 billion contingent rebate and the House bill has a \$6 billion, one-year rebate. Thus the most favorable case assumes \$40 billion less revenue than the most extreme case in either house. This adjustment alone offsets the entire unfavorable budget effects.

2. Energy strategies

On OMB's concrete proposals, I have the following reactions:

- A. The Senate bill has some extraordinarily bad provisions. While the dollars are important, I think it may be counterproductive to tailor an energy policy mainly on its budgetary effects.
 - o Individual programs in the Senate bill -- for example, increased depletion allowance for peat -- should be resisted mainly because they are wasteful.
 - o The overall economic effects -- on taxes, the deficit, unemployment, etc. -- can and should be primarily adjusted for by scaling up or down the size of the tax program we will propose.
- B. We should try to hold as much as possible of the wellhead tax for return to consumers in the form of tax cuts:
 - o The House bill explicitly provides a consumer rebate for 1978, but nothing thereafter.
 - o The House rebate for 1978 is probably not a model for rebates in subsequent years -- for example, it gives special rebates to social security recipients (who already would be reimbursed for higher oil prices by cost-of-living escalators).
 - o Best way to return the wellhead tax receipts to consumers would be through enlarging the tax credits provided in the tax reform bill.
 - o Therefore, at the appropriate time, we should publicly commit ourselves to return the net revenues from the wellhead tax by enlarging our tax reduction proposal.
- C. Jim McIntyre suggests that from a budgetary standpoint limited additional price incentives for new oil and gas are a better buy, in a compromise, than larger tax credits or Federal spending. He is right from an economic standpoint as well.
 - o A decline rate proposal on old oil, if not too generous, would make good sense, and would be a more productive "use" of wellhead revenues than a potpourri of Russell Long tax credits. It would help the cash flow of companies with large old oil reserves, and

would stimulate additional investment in secondary recovery and drilling of development wells in existing fields.

- o If necessary, a modest increase in the new gas price ceiling would be more desirable -- both to stimulate production and to save consumer and taxpayer dollars -- than either easing up on the rollover provision or giving oil and gas producers extra tax credits.

~~CONFIDENTIAL~~

THE WHITE HOUSE
WASHINGTON

December 3, 1977

MR. PRESIDENT:

The original of the attached
will be hand delivered
to Senator Byrd on Monday.
I thought you might like
to be aware of it.

Hamilton Jordan

Attachment
Torrijos message

THE PRESIDENT HAS SEEN.



EMBAJADA DE PANAMA
WASHINGTON, D. C. 20008

December 3, 1977

Dear Senator Byrd:

I have received the following message from our Chief of Government, Brigadier General Omar Torrijos Herrera, with the request it be delivered to you immediately:

"The Honorable
"Senator Robert Byrd
"Majority Leader
"U. S. Senate
"Washington, D. C.

"Dear Senator:

"This is to inform you that our Council of State on December 2, 1977, at Farallón, repealed in its entirety Decree 342 of October 31, 1969, which refers to crimes against constitutional order and the State. This means that such crimes will be dealt with the Penal and Judicial Codes which remain as they were prior to 1968.

"This is also to inform you that certain articles of Decree 341 which suspended constitutional guarantees also were repealed. These articles now repealed referred to prohibitions to hold public meetings in Panama City and Colon. Therefore, this public activity may be carried out throughout the country, including Panama City and Colon, as it always was in practice.

"Within the next few days

**Electrostatic Copy Made
for Preservation Purposes**

"Within the next few days, proposed laws regarding public communication and printed matter will be discussed. We are awaiting recommendations by the Journalists Union which has expressed concern that repeal of the present law would make previous legislation applicable and that such legislation is considered as requiring updating.

"I am keeping my word. Please convey this to your colleagues whom I dearly trust.

"(signed) General Omar Torrijos H."

I avail myself of this opportunity to renew the assurances of my highest esteem and consideration.

Gabriel Lewis
Ambassador

The Honorable
Senator Robert Byrd
Majority Leader
U. S. Senate
Washington, D. C.

THE WHITE HOUSE
WASHINGTON

December 3, 1977

Stu Eizenstat
Jim McIntyre
Charlie Schultze
Secretary Schlesinger

The attached was returned in the President's
outbox and is forwarded to you for
appropriate handling.

Rick Hutcheson

cc: The Vice President
Hamilton Jordan
Frank Moore
Tim Kraft

ADMINISTRATIVELY CONFIDENTIAL

LETTER TO ENERGY CONFEREES

THE WHITE HOUSE
WASHINGTON

*Admin
copy of*

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
	/	MONDALE
		COSTANZA
/		EIZENSTAT
	/	JORDAN
		LIPSHUTZ
	/	MOORE
		POWELL
		WATSON
/		LANCE <i>Jm</i>
/		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
/	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

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THE WHITE HOUSE
WASHINGTON

12-3-77

To Charlie, Jim, Stu, Jim

Draft letter to energy
Conference - as simply
worded as possible -
expressing our concerns
about economic/budget
impacts of NEP. Ex-
pedite -

J.C.

ps. Then we'll meet pri-
vately to discuss together
our own assessment
of compromise options -
maybe Tuesday J.C.

THE WHITE HOUSE
WASHINGTON

12/5/77

Mr. President:

With your approval, we will use the signature pen to sign the letter once you have approved it.

(A list of the 38 conferees is attached.)

Rick

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

December 4, 1977

MEMORANDUM FOR THE PRESIDENT

FROM:

Jim Schlesinger
Charlie Schultze
Stu Eizenstat
Jim McIntyre

Attached is a draft letter to the energy conferees, spelling out the economic and budgetary dangers of loading the bill down with added expenditures and special tax credits.

Before you send it, we urge that you:

First, call Lud Ashley for his judgment on whether such a letter would be useful at this stage in the negotiations.

Then, call Russell Long. Senator Long has privately indicated that he would consider dropping most of the special tax credits in return for some administrative changes in oil pricing along the lines spelled out in Jim Schlesinger's December 1 memo to you. (It is not clear, however, what Senator Long means by "most," particularly in view of the \$46 billion in credits in the Senate bill.) You could thank the Senator for his attitude, and find out whether he would interpret the letter as an attack on him. If called in advance, so that he knows it's not aimed at him, he might then find the letter useful with some of his Senate colleagues.

Attachment

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for Preservation Purposes

DRAFT MEMORANDUM FOR THE PRESIDENT'S SIGNATURE

Dear :

This week the conference committee on the energy bill enters into the final and perhaps most difficult phases of its negotiations. I want to thank the Conferees for the hard work and careful thought which has already resulted in substantial progress toward a final bill. But I also want to call your attention to some very important budgetary and economic consequences of the decisions you will be making in the days ahead.

In the course of the legislative process a large number of new tax credits and expenditure programs have been added or offered as additions to the energy proposals I originally recommended. At the same time, the tax on industrial use of oil and gas has been greatly reduced. Individually, many of these additions would be very costly, have little effect in either conserving energy or increasing energy supplies, and confer special benefits on special groups, with very little gain to the nation as a whole. Most importantly, when taken all together they would increase the budgetary costs of the energy bill by tens of billions of dollars over the next eight years.

The economic consequences of these added tax credits and expenditures would be particularly unfortunate. If they are simply added to the overall cost of the energy bill, they would swell the Federal budget deficit by very large amounts. Most of the added provisions would result in higher Federal expenditures or lower revenues, not at the present time, when there is still slack in the economy, but in subsequent years when the additional deficits would clearly be inflationary. The prospects for achieving high employment and reduced inflation could be significantly impaired.

At the same time the tens of billions of added expenditures and tax credits would threaten the principle of fairness on which the National Energy Plan is based. In line with that principle, the revenues from the crude oil equalization tax should be returned to consumers ~~through~~ through rebates and tax reductions, to the maximum extent possible. To the extent that additional tax credits or expenditures use up budgetary resources, funds that otherwise could be used for rebates or tax reductions to consumers will not be available. Such an outcome clearly would violate the principle of fairness.

As you consider the specific provisions of the energy bill in the days ahead, I urge you to keep in mind the budgetary and economic consequences of your actions taken as a whole. These consequences will be very much in my own

thinking as I judge the final bill.

Again, I thank you for your conscientious efforts. I know that you desire to produce legislation which in its specific parts provides the nation a fair and effective energy program, and in its totality meets the criteria of budgetary and economic responsibility.

Senate Conferees on Energy Taxes

The Honorable Russell Long
217 Russell Senate Office Bldg.

The Honorable Herman Talmadge
109 Russell Senate Office Bldg.

The Honorable Abraham Ribicoff
337 Russell Senate Office Building

The Honorable Mike Gravel
3121 Dirksen Senate Office Building

The Honorable Lloyd Bentsen
240 Russell Senate Office Bldg.

The Honorable William D. Hathaway
248 Russell Senate Office Bldg.

The Honorable Spark M. Matsunaga
362 Russell Senate Office Building

The Honorable Daniel Patrick Moynihan
1107 Dirksen Senate Office Building

The Honorable Carl T. Curtis
2213 Dirksen Senate Office Building

The Honorable Clifford P. Hansen
3229 Dirksen Senate Office Building

The Honorable Robert Dole
4213 Dirksen Senate Office Building

The Honorable Bob Packwood
1317 Dirksen Senate Office Building

The Honorable Paul Laxalt
326 Russell Senate Office Building

THE WHITE HOUSE

WASHINGTON

December 5, 1977

House Energy Conferees

Harley O. Staggers	2366	Rayburn
Thomas L. Ashley	2406	Rayburn
Al Ullman	1136	Longworth
Richard Bolling	2465	Rayburn
Thomas S. Foley	1201	Longworth
John D. Dingell	2221	Rayburn
Paul G. Rogers	2407	Rayburn
Bob Eckhardt	1741	Longworth
Philip R. Sharp	1234	Longworth
Anthony Toby Moffett	1007	Longworth
Charles Wilson	1214	Longworth
Henry S. Reuss	2413	Rayburn Bldg.
Dan Rostenkowski	2111	Rayburn
Charles A. Vanik	2108	Rayburn
James C. Corman	2252	Rayburn
Joe D. Waggoner, Jr.	221	Cannon
Charles B. Rangel	2432	Rayburn
John B. Anderson	1101	Longworth
Clarence J. Brown	2242	Rayburn
Frank Horton	2229	Rayburn
John W. Wydler	2186	Rayburn
Garry Brown	2446	Rayburn
William A. Steiger	1111	Longworth
James M. Collins	2419	Rayburn
Bill Archer	1024	Longworth